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SUBJECT: PRESIDENT REJECTS ICESAVE BILL

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[1](#)1. (U) Summary: President Olafur Ragnar Grimsson announced on January 5 that he will not sign into law the Icesave bill passed by parliament on December 30, but will refer the bill to a national referendum. This decision throws Iceland's political and economic future into complete uncertainty, leaving politicians and pundits alike wondering what happens next. End summary.

President Sends Issue to National Referendum

[1](#)2. (U) The President of Iceland, Olafur Ragnar Grimsson, announced at a press conference on January 5 that he has decided not to sign the Icesave legislation passed by the parliament on December 30. This decision sends the Icesave issue to a national referendum where it is widely expected to fail. The President cited a petition, signed by nearly one-quarter of the electorate, and public opinion polls as the basis for his decision. "It has steadily become more apparent that the people must be convinced that they themselves determine the future course. The involvement of the whole nation in the final decision is therefore the prerequisite for a successful solution, reconciliation and recovery," said the President.

[1](#)3. (SBU) The constitution is vague regarding when a referendum must take place, saying only that it should occur "as soon as circumstances permit." Emboff spoke with Dr. Ragnhildur Helgadóttir, a constitutional lawyer and an advisor to the Icelandic parliament, who said that legislation legalizing a national referendum must pass before the referendum itself can occur. There are currently two bills in the parliament, both of which have gone through the first round of discussions, that address the mechanics of holding a national referendum. One bill was initiated by the Prime Minister and the other by the political party called The Movement. Both of these bills suggest that a referendum should take place within two months after a President rejects signing a bill into law. Helgadóttir said that it is highly likely the parliament, which is currently on vacation, will reconvene shortly and further discuss these two bills, as legislation must be passed before the country can conduct a national referendum.

[1](#)4. (SBU) Should a national referendum reject the Icesave bill, or should the bill be withdrawn before a referendum can occur, the previous legislation passed in August will remain in force (reftel C). That law, although it guaranteed Iceland's repayment of its debts, was unacceptable to the

British and Dutch governments because it contained troubling amendments such as an end date for repayment regardless of whether the debts were paid in full. In a meeting for the diplomatic corps on January 5, officials at the MFA said that even if a referendum rejects the current Icesave bill, Iceland has still pledged to meet its international obligations via the August law. They seemed to be indicating that Iceland would stand behind the previous bill with the hope that the British and Dutch might now find it acceptable in light of recent developments.

Political Fallout

¶5. (U) Prime Minister Johanna Sigurdardottir addressed the media shortly after the President's statement and said that his decision came as a complete surprise to the government. Sigurdardottir stated that the government was extremely disappointed with the decision of the President not to sign the Icesave bill into law, saying that he has placed the rebuilding of Iceland's economy and international reputation into turmoil. The PM questioned whether it was right for the President to be involved in an issue such as Icesave, as it was first and foremost a bilateral issue between the GOI and the British and Dutch governments. (Note: the President's role is largely ceremonial. End note.) Many members of parliament and analysts had previously predicted that the government would resign if its decision was overturned and the Icesave matter went to a national referendum. When asked if the coalition would resign, however, the PM would neither confirm nor exclude the possibility. The PM ended the press conference by saying that the parliamentary groups of the ruling coalition would meet later in the day to review the situation.

¶6. (U) The President's decision also casts serious doubts on
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Iceland's application to join the European Union. Several experts have posited that the British and Dutch may now block Iceland's application in retaliation for this decision. Baldur Thorhallsson, a professor who is considered one of the country's foremost experts on Iceland's EU candidacy, told Emboff that the UK and the Netherlands are almost certain to block Iceland's efforts to join the EU unless a compromise is reached over Icesave. Prior to this development, the EU Commission was widely expected to endorse Iceland's candidacy and negotiations were expected to begin shortly after the next EU summit in March. In the meeting with the diplomatic corps, the MFA, on the other hand, stressed that Iceland's EU application and the Icesave issue are not and should not be linked.

Economic Fallout

¶7. (SBU) The President's decision is expected to have substantial economic implications and further delay Iceland's already stunted economic recovery. The \$2.1 billion IMF program, created under the assumption that the Icesave bill would pass and the country would have access to the \$2.5 billion loan from the Nordic countries, will require significant reworking (reftel B). An IMF employee told Emboff that the IMF does not intend to issue an immediate statement and that nothing may be forthcoming for several days. The credit agencies are also expected to downgrade Iceland to junk status, further limiting the country's efforts to regularize international financial flows.

¶8. (U) PM Sigurdardottir, in response to the President's announcement, stated that uncertainty regarding financial commitments to other countries could have serious, damaging consequences for the Icelandic nation. Both she and the Finance Minister stated that the government wants to prevent Iceland from obtaining the reputation of a country that does not fulfill its commitments. Her office shortly thereafter released a statement saying that "the government of Iceland remains fully committed to implementing the bilateral loan

agreements and thus the state guarantee provided for by the law."

Comment

[¶9.](#) (SBU) The President's decision, and the manner in which he delivered it, highlight the deep divisions impeding the efficacy of the Icelandic government. Despite meeting with government leaders on Sunday to discuss the matter, the members of the ruling coalition only learned of the President's decision from watching the press conference. The Prime Minister and Finance Minister recognize the importance of maintaining international political and financial relationships, yet their credibility has now suffered a serious blow as they scramble to do damage control. It is too soon to tell how the dust will settle; however, concerns regarding the viability of the current government, the country's EU application, and Iceland's economic recovery are all valid. End comment.

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